



*Michael C. Schlachter, CFA
Managing Director & Principal*

January 9, 2008

Dr. Russell Read
Chief Investment Officer
California Public Employees' Retirement System
400 P Street, Suite 3492
Sacramento, CA 95814

Re: Inflation-Linked Asset Class Policies

Dear Russell,

You requested Wilshire's opinion regarding the most recent modifications to the four proposed or modified policies for the new Inflation-Linked Asset Class, including the overall asset class policy and the policies for commodities, inflation-linked bonds, and forestland. We understand that the policy for infrastructure is still under development, and therefore additional investments in the infrastructure sub-asset class are still restricted until the policy is subsequently approved.

In December, we commented extensively on a number of issues within these policies. These issues were discussed at length during the December 2007 Policy Subcommittee meeting, and we believe that the latest versions of these policies properly reflect that discussion and the Policy Subcommittee's input. As a result, we believe that these policies should be adopted in their current form.

Overall Policy

At the December 2007 Investment Committee meeting, during the discussion on the new asset allocation targets and ranges, the Investment Committee determined that the initial range for the Inflation-Linked Asset Class will be 0%-5%, not the range of 2% to 7% proposed by Staff. We note that this change has been properly reflected on page 3.

Commodities Policy

Staff, Wilshire, and the Policy Subcommittee discussed Wilshire's reservation regarding the use of inflation-linked fixed income assets as the collateral for the commodities program. During the December meeting, Staff agreed to limit the proportion of inflation-linked bonds to no more than 20% of the total collateral. This revision is shown in the revised policy on page 4 of the commodities policy.

Dr. Russell Read
January 9, 2008
Page 2

Inflation-Linked Bonds

Wilshire has had no concerns about the global inflation-linked bonds policy, and recommends adoption of the policy.

Forestland

Several changes were made in the most recent version of the Forestland policy which comply with the requests of the Policy Subcommittee.

On page 3, the addition of language regarding the Hazardous Materials policy was added at the request of an Investment Committee member.

On pages 6 and 7, the language regarding violations of the guidelines for leverage and the allocation to Timberland has been revised per the proposal by Wilshire to require Staff to report to the Investment Committee quarterly when violations occur. As discussed in December, we believe that this is the best way of allowing Staff sufficient flexibility in resolving guideline violations without requiring Staff to liquidate investments in a disadvantageous manner while still providing a means for the Investment Committee to maintain oversight of the portfolio.

Conclusion

We believe that the policies presented by Staff reflect the discussions with the Policy Subcommittee and should be adopted as presented. If you have any questions, please do not hesitate to contact us.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael A. Smith", with a long horizontal flourish extending to the right.